

If items of tangible personal property are used or consumed in a production related process, they will qualify as production related tangible personal property. See 86 Ill. Adm. Code 130.331. (This is a GIL.)

April 27, 2006

Dear Xxxxx:

This letter is in response to your letter dated August 25, 2005, in which you request information. The Department apologizes for the delay in getting a response to you. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.tax.illinois.gov](http://www.tax.illinois.gov) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

Today I spoke with the Legal Department regarding clarification of **"qualifying production-related tangible personal property"** that may be used with the MPC. Would you please verify if I am interpreting Illinois Revenue's description of this property correctly?

**"Qualifying production-related tangible personal property ...**

- 1) **...incorporated into real estate within a manufacturing or graphics arts facility**
  - *Would this be like a special room or building built specifically to house the manufactured product at any stage of production?*
- 2) **...quality control**
  - *Would this be any type of quality control equipment used for quality control testing and developing?*
- 3) **...inventory control**
  - *Would this be software, handheld terminals for inventory count or similar type items to track inventory?*

**4) ...storage**

- *Would this be shelving used for all stages of the manufacturing process? i.e. Raw Materials, WIP, and Finished Goods.*

**5) ...staging**

- *Would this be a holding area for the product in between each of the manufacturing processes up to the point of shipping out?*
- *Would it include oils, coolants, lubricants, drill bits, grinding wheels, used in the manufacturing process ?*
- *Would it include workstations where the product may be checked, cleaned or where drawings are laid out to determine computer specs?*

**6) ...packaging for shipping and transportation purposes**

- *Would this be like returnable shipping containers that would hold the customer's individual boxed ordered products?*

**7) ...used or consumed by the purchaser for research and development**

- *materials used to create proto-types*
- *sand blasting materials*
- *special carbide coatings*

The examples given above are only part of the processes and materials ABC uses in their manufacturing of cutting tools. Please provide examples if I am misinterpreting any of the "qualifying production-related tangible personal property".

I may be reached if you have any questions or need further information.

Thank you in advance for your assistance.

**DEPARTMENT'S RESPONSE:**

We regret that we cannot provide you with a specific answer in the context of a General Information Letter. We hope the following information may provide you with guidance regarding your specific situation.

You have inquired about qualifying production related tangible personal property that may be used with the manufacturer's purchase credit ("MPC"). The State of Illinois provides a manufacturer's purchase credit on the purchase of tangible personal property that qualifies for the manufacturing machinery and equipment exemption and graphic arts equipment exemption. See 86 Ill. Adm. Code 130.331.

The amount of credit earned is based on a percentage of the amount of tax avoided through the manufacturing machinery and equipment exemption. The credit may be used to satisfy Use Tax or Service Use Tax liability that is incurred on the purchase of production related tangible personal property that does not qualify for the manufacturing machinery and equipment exemption. If items of tangible personal property are used or consumed in a production related process, they will qualify as production related tangible personal property. See the Department's regulations at 86 Ill. Adm. Code 130.331(b)(3). This is true even if that property is incorporated into real estate within a manufacturing facility.

For example, forklift trucks used to move raw materials to a manufacturing area are generally being used in a production related process and would normally qualify as production related tangible personal property. Other examples include supplies and consumables, such as oils and lubricants, hand tools, fire and safety equipment, quality control equipment, raw materials and finished product storage materials, and material handling equipment. All tangible personal property used or consumed by a manufacturer or graphic arts producer in research and development will qualify for the exemption regardless of whether it is used within or without a manufacturing or graphic arts facility. See 86 Ill. Adm. Code 130.331(b)(3)(C).

I hope this information is helpful. If you require additional information, please visit our website at [www.tax.illinois.gov](http://www.tax.illinois.gov) or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Edwin E. Boggess  
Associate Counsel

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